Saskatchewan Transportation Company
Second Quarter Report 2016-17

For the period ending September 30, 2016

Corporate Mandate

The Saskatchewan Transportation Company is a provincial coach company which provides **safe**, **affordable**, and **accessible** bus passenger and freight services to Saskatchewan.

2016-17 Corporate Profile

Mission

To provide value to Saskatchewan residents with convenient, affordable, safe, clean, comfortable, courteous, environmentally friendly, and reliable passenger and freight transportation services.

Vision

To be the best passenger and freight transportation company in Canada.

Values

All business activities are conducted in a manner that is:

- Honest
- Dependable
- Innovative
- Respectful
- Socially and Environmentally Responsible

Table of Contents

Management Discussion and Analysis 1

Introduction 1
Results of Operations 1
- Passenger Services 2
- Express Services 2
- Maintenance Services 3
- Other Revenue 3
- Expenses 3

Outlook 4

Quarterly Financial Statements 5

Condensed Statement of Financial Position 5
Condensed Statement of Comprehensive Income 6
Condensed Statement of Changes in Equity 7
Condensed Statement of Cash Flows 8
Notes to Condensed Financial Statements 9

Management Discussion and Analysis

Introduction

The following Management Discussion and Analysis (MD&A) provides insight into the Saskatchewan Transportation Company's (STC or the Company) operations for the six months ended September 30, 2016. The MD&A is as of November 23, 2016 and should be read in conjunction with STC's September 30, 2016 condensed financial statements. The September 30, 2016 condensed financial statements are unaudited and have been prepared in accordance with International Accounting Standards (IAS) 34 – *Interim Financial Reporting*.

The discussion contains certain forward-looking statements that reflect Management's best estimates and assumptions on information available at the time. As these statements are impacted by certain risks and uncertainties described in the Risk Assessment section of STC's 2015-16 Annual Report, actual results and events may vary from those included in, contemplated by or implied by such statements.

Results of Operations

STC provides intercity bus service to a geographically-dispersed Saskatchewan market, and the footprint of its network is a key driver of costs. Diversifying revenue beyond passenger services, particularly through parcel express services, helps STC offset the passenger service losses. Other revenue streams, such as foreign coach and leasing company facilities, further contribute to STC's profitability.

To fulfill its public policy role, STC requires an operating and capital grant from its owner, Crown Investments Corporation (CIC). Ensuring the efficient use of these funds drives decisions throughout STC. As a result, the Company's financial performance is measured based on its operational efficiency. STC's operating cash loss as a percentage of expenditures was 42 per cent for the six months ended September 30, 2016. In this regard, STC compares favourably to public transit in the urban centres which sit between 64 and 72 per cent on an annual basis, meaning STC's self-generated revenues cover a larger percentage of its operating expenses.

STC's revenues for the second quarter of 2016-17 were $3,697 thousand, down $311 thousand from $4,008 thousand in 2015-16 because of declines in both passenger and express revenues. Expenses for the quarter were $6,831 thousand, an increase of $292 thousand. This increase was primarily due to additional fleet maintenance costs and staffing costs. As a result, the Company's loss before grants (including depreciation) was $3,134 thousand for the second quarter of 2016-17, a $603 thousand increase when compared to the $2,531 thousand loss reported for 2015-16.

On a year-to-date basis, declines in passenger and express services resulted in $863 thousand lower revenues, from $7,890 thousand in 2015-16 to $7,027 thousand in 2016-17. Total expenses for the six months ended September 30, 2016 of $13,522 thousand were $116 thousand lower than the corresponding 2015-16 period as lower depreciation, agent commissions and fuel prices offset cost increases related to staffing costs. For the period, the Company's loss before grants (including depreciation) grew to $6,495 thousand from a $5,748 thousand loss in the corresponding 2015-16 period.

For the fiscal year ending March 31, 2017, an operating grant of $12,400 thousand and a capital grant of $1,800 thousand from CIC were approved. At September 30, 2016, STC had received $5,500 thousand of the operating grant funds and $600 thousand of the capital grant funds available.

Passenger Services

STC provides intercity bus passenger service to 253 Saskatchewan communities. During the second quarter of 2016-17, STC coaches travelled approximately 719 thousand miles (2015-16 - 744 thousand miles). On a year-to-date basis, a total of 1,428 thousand miles were travelled during the first six months (2015-16 - 1,449 thousand miles).

	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
	(in thousands)			
Passenger service revenue	$ 1,479	$ 1,690	$ 2,883	$ 3,374
Passenger service operating expense	3,712	3,543	7,272	7,224
Passenger service loss	$ (2,233)	$ (1,853)	$ (4,389)	$ (3,850)

Total ridership for the second quarter of 2016-17 was 48,303 compared to 47,180 for 2015-16, an increase of approximately 2.4 per cent. The increase in ridership reported during the quarter was attributable to STC's advertising and promotional activities, highlighted by the Frequent Rider Card sale in July and August and a Senior Seat Sale in September. The increase in ridership realized during the second quarter helped soften the declines reported for the first quarter of 2016-17. As a result, total ridership of 88,263 for the six months ended September 30, 2016 was only 7.1 per cent lower than the total ridership of 94,961 for the six months ended September 30, 2015.

Revenues from passenger services for the second quarter of 2016-17 were $1,479 thousand, down $211 thousand from the $1,690 thousand reported in 2015-16. Promotions were targeted at increasing the ridership base, resulting in reduced average fares in the quarter, with the intent to strengthen STC's long-term revenue generation ability by way of returning riders. Expenses associated with operating passenger services were $3,712 thousand, up $169 thousand when compared to the $3,543 thousand reported for 2015-16. The increase was principally due to additional fleet maintenance expenditures, advertising activity and staffing costs.

On a year-to-date basis, total passenger revenues declined $491 thousand to $2,883 thousand for the six months ended September 30, 2016 as a result of lower ridership. The lower ridership and subsequent revenues were impacted by the sustained low cost of consumer fuel that increased the perceived cost of bus fares. This rationale was further supported by the growth in ridership that occurred during the second quarter of 2016-17 when STC implemented several promotions that provided discounted fares. Route reductions implemented by Greyhound Canada and STC over the last few years also continued to impact ridership. For the six-month period, total expenses were $7,272 thousand compared to $7,224 thousand reported for the corresponding 2015-16 period. The $48 thousand increase was largely due to building occupancy, staffing and advertising costs. These expenditures were offset by reductions in both agent commissions, an outcome of the lower passenger service revenue and fuel costs, a result of lower diesel prices.

Express Services

Through its network of 174 agents and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America.

	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
	(in thousands)			
Parcel express revenue	$ 1,806	$ 1,879	$ 3,559	$ 3,834
Parcel express operating expense	1,416	1,375	2,784	2,819
Parcel express profit	$ 390	$ 504	$ 775	$ 1,015

For the second quarter of 2016-17, revenues from express services were $1,806 thousand, down $73 thousand from the $1,879 thousand reported for the prior year's quarter, given lower volumes. Expenses associated with operating express services during the quarter were $1,416 thousand. This was an increase of $41 thousand from 2015-16 attributable to the combination of several insignificant variances.

Express revenues for the six months ended September 30, 2016 were $3,559 thousand compared to $3,834 thousand for the corresponding 2015-16 period, a decline of $275 thousand. The lower express revenues were a reflection of lower volumes. Total express operating expenses of $2,784 thousand for the six-month period were down from the $2,819 thousand reported for the comparable 2015-16 period. The total favourable variance was

$35 thousand, as reduced shipping volumes impacted variable costs such as pickup and delivery charges and agent commissions.

Maintenance Services

STC operates two maintenance facilities, one in Saskatoon for major bus maintenance and one in Regina for more routine servicing.

For the second quarter of 2016-17, maintenance service expenditures associated with supporting the Company's fleet (included in passenger and express services above) were $244 thousand, compared to $185 thousand for 2015-16. These expenses were $427 thousand for the six months ended September 30, 2016, $15 thousand above the same period in 2015-16. The higher costs realized were primarily due to the timing of unpredictable, non-routine maintenance with a significant amount of work performed during the second quarter of 2016-17.

The Company also uses its facilities to provide maintenance and cleaning services for other transportation companies. The revenues derived from this service during the second quarter were $56 thousand compared to $63 thousand in the prior year's quarter, a decrease of $7 thousand. On a year-to-date basis, total revenues for the six-month period of $106 thousand were down $21 thousand from the same period in 2015-16. The decrease in revenue experienced during both the second quarter and year-to-date was due to lower fuel volumes and fuel prices being charged to maintenance customers.

Lower revenues led to corresponding decreases in the associated expenses. Foreign coach maintenance expenses of $32 thousand for the second quarter and $59 thousand for the six months ended September 30, 2016 were $6 thousand below and $13 thousand below the corresponding 2015-16 periods respectively.

	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
	(in thousands)			
Foreign coach maintenance revenue	$ 56	$ 63	$ 106	$ 127
Foreign coach maintenance expense	32	38	59	72
Foreign coach maintenance profit	$ 24	$ 25	$ 47	$ 55

Other Revenue

STC generates other revenue through alternative sources to help offset grant requirements. For the second quarter other revenue totaled $412 thousand ($439 thousand in 2015-16) which includes the foreign coach maintenance revenue of $56 thousand ($63 thousand for 2015-16) discussed above. This was a decline of $27 thousand quarter-over-quarter.

Similarly, other revenue totaled $585 thousand for the six-month period ended September 30, 2016 ($653 thousand for 2015-16), a $68 thousand decrease. These totals include the year-to-date foreign coach maintenance revenue of $106 thousand ($127 thousand for 2015-16) previously discussed.

The remaining declines, on both a quarterly and year-to-date basis, were due to slight decreases in several ancillary revenue streams, an outcome of the decline in ridership and express volumes.

Expenses

As part of the revenue discussion above, expenses were classified by function to assist with analysis of STC's different lines of business. The discussion below corresponds with the condensed statement of comprehensive income presentation.

Looking at STC's expenses as a whole for the second quarter, salaries, wages and short-term employee benefits of $3,922 thousand were $163 thousand higher than 2015-16. Operating costs of $2,212 thousand for the second quarter were $164 thousand higher when compared to $2,048 thousand for 2015-16. The increase in cost was largely the result of the timing of unpredictable, non-routine fleet maintenance. There were also advertising costs associated with the Senior Seat Sale and other promotions during the period. The Company's depreciation expense of $697 thousand for the second quarter was $35 thousand lower than 2015-16 given timing differences related to the replacement of fleet and other projects.

For the six months ended September 30, 2016 salaries, wages and short-term employee benefits were $7,813 thousand compared to $7,640 thousand for the same period in the prior year, a $173 thousand increase. Operating expenses for the six months ended September 30, 2016 were $4,306 thousand, $53 thousand higher than the $4,253 thousand reported for the six-month period in 2015-16. The most significant contributors to the variance related to building maintenance and operating costs. In addition, STC reintroduced advertising and promotions to help strengthen revenues. There were cost savings in fuel and other variable items associated with lower ridership and express volumes, such as pickup and delivery charges and commissions paid to STC's agents. Total depreciation for the six months ended September 30, 2016 was $1,403 thousand, $342 thousand lower than the comparable 2015-16 period. The prior year's comparable amount reflects an impairment that was recorded, and there was also timing differences related to capital asset replacements.

Outlook

Throughout the remainder of 2016-17, STC will continue its marketing campaign to strengthen existing customer relationships and establish new ones. The message to customers, as always, is to convey STC's commitment to providing safe, affordable and accessible bus passenger and freight services to Saskatchewan. STC will invest in fleet, technology, people and facilities to support strategic goals of increasing revenues while maintaining high customer satisfaction ratings for both passengers and shippers.

2016-17 is an exciting time for STC as the Company moves towards smaller, more cost efficient vehicles. The investment in smaller passenger vehicles provides service to low-use routes while realizing cost savings with a smaller initial capital investment and reduced ongoing operating costs. Within the year, STC plans to place three new 16-passenger vehicles and one new 22-passenger vehicle into service. STC has also ordered additional new 16-passenger and 22-passenger vehicles. These purchases, along with the small and mid-sized vehicles already in the fleet, will allow STC to assign, at least part of the time, smaller vehicles to approximately half the routes in the network.

Throughout the remainder of 2016-17, STC will be implementing a new point-of-sale (POS) system that will allow for expanded on-line ticket purchases to make it easier for customers to book their trips. Beyond meeting customer expectations, an upgraded POS system is the foundation for internal efficiencies. Most notably, the new POS system will have capacity management, a component necessary to support STC's utilization of smaller vehicles.

The public transportation industry will continue to require government subsidies to ensure service levels are available beyond limited high traffic corridors. STC's funding is required to ensure strategic investment occurs in new opportunities and tools. This will position STC to further increase the efficiency of the service delivery model for both bus passenger and freight services.

Saskatchewan Transportation Company
Condensed Statement of Financial Position
As at

	September 30, 2016 (unaudited)	March 31, 2016 (audited)
	(in thousands)	
Assets		
Current assets		
Cash	$ 2,047	$ 2,051
Accounts receivable	1,017	806
Inventories	373	351
Prepaid expenses	540	468
Assets held for sale	4	4
	3,981	3,680
Property and equipment (note 6)	34,892	35,946
	$ 38,873	**$ 39,626**
Liabilities and Province's Equity		
Liabilities		
Current liabilities		
Trade and other payables	$ 2,191	$ 2,549
Deferred capital grant	29,544	30,233
	31,735	32,782
Province of Saskatchewan's Equity		
Contributed surplus	465	465
Retained earnings	6,673	6,379
	7,138	6,844
	$ 38,873	**$ 39,626**

See accompanying notes

Saskatchewan Transportation Company
Condensed Statement of Comprehensive Income
(unaudited)

	Three months ended September 30		Six months ended September 30	
	2016	**2015**	**2016**	**2015**
	(in thousands)			
Revenue				
Express services	$ 1,806	$ 1,879	$ 3,559	$ 3,834
Passenger services	1,479	1,690	2,883	3,374
Other	412	439	585	653
Gain on disposal of property and equipment	-	-	-	29
	3,697	4,008	7,027	7,890
Expenses				
Operating costs other than those listed below	2,212	2,048	4,306	4,253
Salaries, wages and short-term employee benefits	3,922	3,759	7,813	7,640
Depreciation	697	732	1,403	1,745
	6,831	6,539	13,522	13,638
Loss before the following	(3,134)	(2,531)	(6,495)	(5,748)
Operating grant	3,000	2,500	5,500	6,300
Capital grant	640	673	1,289	1,639
Total comprehensive income	**$ 506**	**$ 642**	**$ 294**	**$ 2,191**

Saskatchewan Transportation Company
Condensed Statement of Changes in Equity
(unaudited)

	Attributable to the Province of Saskatchewan		
	Retained Earnings	**Contributed Surplus**	**Total Equity**
	(in thousands)		
Balance at April 1, 2015	$ 5,186	$ 465	$ 5,651
Total comprehensive Income	2,191	-	2,191
Balance at September 30, 2015	7,377	465	7,842
Total comprehensive loss	(998)	-	(998)
Balance at March 31, 2016	6,379	465	6,844
Total comprehensive income	**294**	-	**294**
Balance at September 30, 2016	**$ 6,673**	**$ 465**	**$ 7,138**

See accompanying notes

Saskatchewan Transportation Company
Condensed Statement of Cash Flows
(unaudited)

	Six months ended September 30	
	2016	**2015**
	(in thousands)	
Operating Activities		
Total comprehensive income	$ 294	$ 2,191
Items not involving cash:		
Depreciation	1,403	1,745
Gain on disposal of property and equipment	-	(29)
Recognition of capital grant	(1,289)	(1,639)
Net change in non-cash working capital	(663)	35
Cash (used in) provided by operating activities	(255)	2,303
Investing Activities		
Additions to property and equipment (note 6)	(349)	(1,814)
Proceeds on disposal of property and equipment (note 6)	-	40
Cash used in investing activities	(349)	(1,774)
Financing Activities		
Capital grant received	600	1,900
Repayment of operating demand loan	-	(500)
Cash provided by financing activities	600	1,400
(Decrease) increase in cash	(4)	1,929
Cash, beginning of the period	2,051	1,392
Cash, end of the period	**$ 2,047**	**$ 3,321**

See accompanying notes

Saskatchewan Transportation Company
Notes to Condensed Financial Statements
September 30, 2016
(unaudited)

1. Status of the Company

The Saskatchewan Transportation Company (STC or the Company) was originally established in 1946 by Order in Council #168 to act as a common carrier providing passenger service transportation, parcel express and freight services. STC's powers, duties and conditions were affirmed in 1993 by Order in Council #5. STC is continued under *The Crown Corporations Act, 1993*. STC is a corporation domiciled in Canada. The address of the Company's registered office and principal place of business is 1717 Saskatchewan Drive, Regina, SK S4P 2E2.

STC has been designated a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of STC are included in the condensed consolidated financial statements of CIC.

As a provincial Crown corporation STC is not subject to Federal or Provincial income taxes in Canada.

STC's passenger rates are subject to rate regulation by the Motor Carrier Committee of the Saskatchewan Highway Traffic Board, which is a related party. The Motor Carrier Committee reviews applications for operating authority certificates under the *Traffic Safety Act*, and fixes rates and conditions of carriage for holders of these certificates or licenses of authority. STC holds operating authority on the routes it operates, but must seek approval for passenger rate changes from the Motor Carrier Committee.

2. Operations and financing

As a matter of public policy, STC will continue to provide bus passenger and express service to the communities of Saskatchewan. The Company will ensure that its commitment to servicing the province of Saskatchewan is kept uppermost in all of its planning. As a result of the public policy rationale for the operation of certain non-commercial routes, STC continues to be dependent upon CIC for its funding.

By way of Order in Council #282/2016, STC was authorized to obtain grant funding up to $14,200 thousand for the fiscal year's operating and capital requirements (March 31, 2016 - $13,700 thousand, Orders in Council #83/2015 and #605/2015). To date, STC requested and received $6,100 thousand of the $14,200 thousand authorized.

3. Basis of preparation

a. Statement of compliance

These condensed financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 – *Interim Financial Reporting*. These condensed financial statements do not include all the information required for full annual financial statements and should be read in conjunction with STC's audited annual financial statements for the 15-month period ended March 31, 2016.

The condensed financial statements were authorized for issue by STC's Board of Directors on November 23, 2016.

b. Basis of measurement

These condensed financial statements have been prepared on the historical cost basis.

c. Functional and presentation currency

These condensed financial statements are presented in Canadian dollars, which is the Company's functional currency.

d. Use of estimates and judgments

The preparation of condensed financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Accounts receivable are stated after evaluation as to their collectability, and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Depreciation is based on the estimated useful lives of property and equipment. Tangible assets are reviewed for impairment annually using estimates of recoverable amounts to determine if there is an impairment loss. The accrual for compensated absences is based on a three-year rolling average of historical usage.

4. Significant accounting policies

The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those disclosed in STC's audited financial statements for the 15-month period ended March 31, 2016.

a. Changes in accounting policies during the period

Effective January 1, 2016, the Company adopted the following amended IFRSs:

- IFRS 7, *Financial Instruments: Disclosures* – Annual Improvements to IFRSs 2012-2014 Cycle
- IAS 1, *Presentation of Financial Statements* – amendments to Disclosure Initiative
- IAS 16, *Property, Plant and Equipment* – amendments to Clarification of Acceptable Methods of Depreciation and Amortization
- IAS 38, *Intangible Assets* – amendments to Clarification of Acceptable Methods of Depreciation and Amortization

These standard changes had no effect on the condensed financial statements of STC.

b. New standards and interpretations not yet adopted

The following new standards, and amendments to standards and interpretations, are not yet effective for the period and have not been applied in preparing these condensed financial statements:

- IFRS 9, *Financial Instruments* – effective January 1, 2018
- IFRS 15, *Revenue from Contracts with Customers* – effective January 1, 2018
- IFRS 16, *Leases* – effective January 1, 2019
- IAS 7, *Statement of Cash Flows* – amendments to Disclosure Initiative – effective January 1, 2017

The extent of the impact on adoption of these standards on the condensed financial statements of STC is not known at this time.

5. Financial instruments

The following summarizes the classification, carrying amounts and fair values of the Company's financial instruments:

			September 30, 2016		March 31, 2016	
	Classification	Level	Carrying amount	Fair value	Carrying amount	Fair value
			(in thousands)			
Cash	FV	1	$ 2,047	$ 2,047	$ 2,051	$ 2,051
Accounts receivable	L&R	N/A	1,017	1,017	806	806
Trade and other payables	OL	N/A	2,191	2,191	2,549	2,549

Classification details are:
FV – fair value through profit or loss
L&R – loans and receivables
OL – other financial liabilities

Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of inputs used in the valuation.

Level 1 – Quoted prices are readily available from an active market.
Level 2 – Inputs, other than quoted prices included in level 1, that are observable either directly or indirectly.
Level 3 – Inputs are not based on observable market data.

The fair value hierarchy is not applicable where the carrying amount approximates fair value due to the short-term nature of the financial instrument.

6. Property and equipment

During the period, the Company acquired property and equipment totaling $349 thousand. Of this, $120 thousand was related to buildings, $192 thousand was related to vehicles and $37 thousand was related to equipment.

There were property and equipment disposals totaling $126 thousand during the period. Of this, $125 thousand was related to vehicles and $1 thousand was related to equipment.

7. Commitments

As at September 30, 2016, STC had outstanding significant commitments in the amount of $1,743 thousand for the purchase of coaches. Some of these fleet additions are expected to be delivered during the third quarter of 2016-17, and the remaining are expected to be delivered during the first quarter of 2017-18.